

Strengthening the Economy and Increasing Wages by Making the Tax Code Simpler and Fairer for America's Small Business

The Tax Code is Problematic for the Nation's Leading Job Creators – Small Businesses According to the National Federation of Independent Business (NFIB), small businesses and pass-through entities are especially sensitive to tax rates and the complexity of the tax code. NFIB research finds that:

- Seventy-five percent of small businesses are unincorporated pass-through entities, so owners report business income on their personal taxes.
- Lacking tax expertise, nearly nine-in-ten small business owners rely on an outside tax preparer.
- Tax compliance costs are 65 percent higher for small businesses than for big businesses. Compliance costs small-business owners \$18-\$19 billion per year. Paperwork costs come to \$74.24 per hour.

Small Business and the American Economy

- Small businesses have generated 65 percent of net new jobs over the past 17 years (Small Business Administration).
- From 1992 through 2010, small businesses outperformed large firms in net job creation 75 percent of the time, according to the SBA Office of Advocacy's Small Business Economy 2011 report (released March 21, 2012).
- According to the Joint Committee on Taxation, small businesses generate roughly half of total business income earned in the United States.

The tax code is too complex, too costly, and takes too much time to comply with.

- It takes U.S. taxpayers (both individuals and businesses) more than 6.1 billion hours to complete tax filings (<u>National Taxpayer Advocate</u>). This is the equivalent of more than 3 million full-time employees.
- For 2010, the <u>National Taxpayer Advocate</u> estimated that it cost individual and corporate taxpayers \$168 billion to comply with the code. That amount is 12 times the budget of the Internal Revenue Service (IRS).
- Today's tax code contains almost four million words.
- On average, more than one new tax provision has been added to the tax code each day, with nearly 4,500 changes in the last decade.
- <u>National Taxpayer Advocate</u> research finds that roughly nine-in-ten Americans rely on paid professionals or commercial software to prepare their tax returns (nearly 60 percent of taxpayers hire paid preparers; another 30 percent use software).
- The <u>IRS</u> reports that the estimated average time burden for all taxpayers filing a Form 1040, 1040A, or 1040EZ is 13 hours, with an average cost of \$210 per return. With respect to these forms, nonbusiness taxpayers face an average burden of about 8 hours and \$120, while business taxpayers face an average burden of about 23 hours and \$420.